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Southern California Edison Company's Comments On The Committee Draft Transmittal Of 2005 Integrated Energy Policy Report Range Of Need And Policy Recommendations To The California Public Utilities Commission

Before the
California Energy Commission

Rosemead, California
November 8, 2005

LAW#1257868

Southern California Edison Company's Comments On The Draft Transmittal

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I.

INTRODUCTION

Southern California Edison Company (SCE) submits the following comments on The Committee Draft Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission issued November 2005 (Draft Transmittal).

As the California Public Utilities Commission (CPUC) specifically asked the California Energy Commission (CEC) to use its Integrated Energy Policy Report (IEPR) process as "the appropriate venue for considering issues of load forecasting, resource assessment and scenario analysis, to determine the appropriate level and range of resource needs for load serving entities (LSEs) in California."[1] SCE initially comments on several areas where the Draft Transmittal has grossly misinterpreted the scope of the assessment the CPUC desired and made policy determinations which unfairly disadvantage investor-owned utilities (IOUs) and their bundled-service customers relative to all other participants in the market.

Among these issues are the Draft Transmittal's: a) recommendation that IOUs make commitments that are not required of any other LSEs; b) recommendation that the CPUC restrict renewable procurement through the requirement of standard contract terms; c) recommendation that the CPUC require IOUs to buy, through standard offer contracts all electricity from combined heat and power (CHP) plants in the IOUs' service territories at the IOUs' avoided costs; and d) publishing of residual net short estimates. As SCE has already addressed each of these issues in its October 14, 2005 Comments

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[1] *See* CPUC Assigned Commissioner's Ruling on Interaction Between the CPUC Long-Term Planning Process and the CEC IEPR Process, issued September 16, 2004, at 1.

on the Draft 2005 Integrated Energy Policy Report it will not restate those concerns here, however, SCE incorporates those previous comments by reference. Accordingly, SCE limits its comments here to issues related to load forecasting (including mistakes and inconsistencies in the resource accounting tables) and renewable resources.

II.

COMMENTS ON LOAD FORECASTING ISSUES

SCE has a number of concerns related to the CEC's current load forecasting process. These issues have the potential to create serious problems between utility and CEC Staff forecasts in the future. SCE's other comments in this section apply directly to the Draft Transmittal.

A. Issues With The CEC's Forecasting Process and Models

As SCE has indicated throughout the IEPR process, the CEC Staff's underlying load forecasting process and models lead to serious and irreconcilable differences between utility load forecasts and CEC Staff load forecasts. These processes and models must be revised in order to provide the most accurate load forecast information.

Prior to deregulation, the CEC conducted bi-annual Common Forecast Methodology (CFM) workshops and hearings pursuant to regulations authorized by the Warren-Alquist Bill. At those hearings, which took place between the early 1980s and 1996, SCE forecasters developed opinions about the CEC's forecasting process. For example, SCE found that the CEC's methodology was not in the best interests of Californians or SCE's ratepayers because the CEC's in-house developed, end-use forecasting model was overly complex in construction and overly simplistic in results.[2]

SCE has been informed that the CEC Staff is, to a large extent, still using versions of the problematic models and processes to develop information for the Draft Transmittal. Thus, the Draft Transmittal contains many of the same shortcomings which pervaded the CEC load forecast determinations ten years ago. Some of the issues raised by the CEC's model are:

- What is the price elasticity in each of the residential, commercial, and industrial end-use models? If the price of electricity is raised by 10%, what is the first year, and continuing, impact on consumption and peak demand?
- What is the elasticity of the three models with respect to the primary economic driver—the income elasticity of the residential model, the employment or income elasticity of the commercial model, and the value added, or employment elasticity, of the industrial model? For a 10% change in the economic input, what is the first year, and the continuing, impact over the forecast period on consumption and peak demand?
- What is the "back-cast" accuracy of the models from 1985 through 2005? In prior CFM hearings, SCE frequently observed that when the model was run over a historical period, with recorded economic drivers, the trend predicting consumption was severely biased, as opposed to the results when a recorded consumption trend was utilized. In general, end-use models do not reflect growth rates of consumption that actually occur. Specifically, the CEC Staff model

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[2] Such end-use models more accurately predict load for smaller customers than they do for larger customers.

over-predicts the early part of the historical consumption period, and under-predicts the latter part of this period. This means that for the last year of recorded data, the model would predict significantly lower consumption than actually occurred. Extending a forecast from this point would obviously lead to a low forecast. SCE has, for years, advised the CEC Staff of this problem with its model. The CEC's model is inherently flawed and should not be used as the basis for State forecasts. Despite SCE's warnings to the CEC Staff, this issue continues to be one leading to disagreements between utility forecasting staffs and the CEC's forecasting staff.

For all of the foregoing reasons, the model and processes used by the CEC Staff to develop the Draft Transmittal are fundamentally flawed and will continue to be so until the concerns raised by SCE here are addressed. SCE urges the CEC and the CPUC to promptly move to address these issues.

B. Specific Issues With Regard to the Draft Transmittal

1. The CEC's Draft Transmittal Should Include a Summary Table of Demand Forecasts, Which Accounts For Committed and Uncommitted Energy Efficiency and Demand-Side Management Programs

As a general concept, SCE believes that the CEC's reports should always publish one summary table reflecting the forecasts of demand that the CEC expects to show up at the meter. This means, that even if "uncommitted" energy efficiency (EE) and Demand Side Management (DSM) are handled as supply resources, and not deductions to the demand forecast (and if handled as a resource they should have a 15% reliability adder so they are equivalent to a reduction in demand, since that is how they will "show up" in the end), there should be tables wherein committed and uncommitted EE and DSM are both deducted from the demand forecast. Accordingly, when the Draft Transmittal details the level at which energy demand will grow over the next decade, that figure should have uncommitted EE and DSM deducted from the demand forecast. Uncommitted EE is still EE, it is not a generator, and, if funded, it will only have the effect of reducing demand. To publish a demand forecast that only deducts committed EE and then provide a report that discusses California's needs, based on those demand results, exaggerates expected demand growth.

Uncommitted EE may not be funded, but it is still presumed "likely to occur," and should be deducted from the demand forecast in the CEC's summary table of the demand outlook for California. SCE has not identified such a summary table in this Draft Transmittal, and it should be added. If, however, the CEC Staff wants to compare "consumption forecast with just committed EE" against "consumption forecasts with committed and uncommitted EE deducted," it should at least emphasize that the ultimate intention is to forecast "demand" as what the meters will show, given the input assumptions, and not to leave a confusing trail of pieces of the demand forecast.

2. **The Draft Transmittal Should Clarify That Labels of "Committed" and "Uncommitted" EE Programs Do Not Reflect SCE's Commitment to Such Programs**

SCE's internal forecasting methodology assumes that Public Goods Charge (PGC)-funded programs continue in the long-term. The methodology also looks to SCE's management for guidance as to the Company's commitment to future accelerated EE. Based on this direction, SCE includes estimates of EE for the 20 or 25 year forecast horizon. SCE does this so that its forecasts will show the impact on sales and demand of its policies with regard to EE.

If the Draft Transmittal shows an early termination of PGC or advanced EE programs, this result is only because the CEC's instructions for filling out the IEPR forms specifically indicated that the normal assumptions SCE makes should be changed. For this reason, the labels of "committed " and "uncommitted" used in the Draft Transmittal should not be viewed as indicative of SCE's commitment to such programs, rather they are solely the product of the CEC's instructions for the IEPR process. As currently drafted, the Draft Transmittal does not make clear that the labels "committed" and "uncommitted" are not indicative of SCE's commitment to such EE programs. The Draft Transmittal should be revised to reflect this clarification.

3. The Draft Transmittal's Resource Accounting Tables Should Include Uncommitted EE

The Draft Transmittal's reserve planning tables should include uncommitted EE with a 15% adder, such that uncommitted EE has the impact of reducing demand forecasts. Tables B7 through B12 in the Draft Transmittal do not appear to have done this. The failure to account for uncommitted EE has thus essentially overstated SCE future resource needs.

4. **<u>The Draft Transmittal's Resource Accounting Tables Should Use Either Planning Area or Bundled Area, But Not Both In The Same Table</u>**

Tables B7 through B12 mix "planning area" and "bundled" load and supply data. It is also unclear which information in the tables is provided by the IOUs and which is the product of a CEC forecast. The CEC Staff should correct these errors and clarify the sources for their information. The CEC should also explicitly state its assumptions regarding the future of direct access and community choice aggregation.

5. **<u>Treatment of Aging Power Plant Replacement In The Draft Transmittal's Resource Accounting Tables Is Confusing</u>**

Tables B7 through B12 confusingly address aging power plants. The CEC's intention with regard to these power plants should be clarified.

III.

<u>COMMENTS ON THE DRAFT TRANSMITTAL'S POLICY RECOMMENDATIONS</u>

SCE is surprised that the vast majority of Draft Transmittal addresses policy issues. Instead of focusing on issues related to future procurement needs, the CEC uses the Draft Transmittal to promote its own policy positions. In this respect, the Draft Transmittal merely parrots many of the statements made in the Draft 2005 IEPR. For this reason, SCE incorporates fully by reference its written comments on the Draft 2005 IEPR. Additionally, SCE reemphasizes its position on the following issues in the Draft Transmittal.

A. <u>**The Draft Transmittal Contains Unsupported Recommendations Regarding the Need for Long-Term Renewables Contracts**</u>

Section 3.1.1 of the Draft Transmittal states, "[t]he lack of long-term contracts also hinders the development of renewable resources."[3] In, fact, SCE has recently executed long term contracts with eligible renewable resource project developers for up to1,350 MW of capacity. San Diego Gas & Electric and Pacific Gas and Electric Company have also executed long term contracts representing more than 1,100 MW and 225 MW respectively. All three IOUs have begun their 2005 solicitations, and SCE has received numerous bids. Thus, the CEC's assessment and recommendations on this issue are not supported by analysis and are contrary to fact.

Further, the CPUC has jurisdiction over the development of contract terms, approval of contracts, and monitoring and enforcement of progress towards renewable portfolio standard (RPS) goals. Accordingly, the Draft Transmittal's inclusion of recommendations regarding this issue are unnecessary and should be deleted.

B. <u>**The Draft Transmittal's Recommendation's Regarding Standardized Contracts Should Be Deleted**</u>

In Section 3.1.2, the CEC states, "In addition to the previous discussion of long-term contracts, there was a significant volume of testimony in this proceeding regarding the need for standardized contracts."[4] This "testimony" consists of the unsworn comments of counsel and a limited number of Qualifying Facility representatives rehashing issues that have been fully resolved by the CPUC in D.04-06-014, which addressed and rejected

[3] Draft Transmittal at 9.
[4] Draft Transmittal at 11.

arguments concerning the need for standardized contracts to implement the RPS legislation. Likewise, the issue of whether standardized contracts for cogeneration is an issue over which the CPUC has jurisdiction and which it is actively investigating in R.04-04-025.

Because these issues are squarely, and solely, within the CPUC's jurisdiction, it is inappropriate for the CEC to use the Draft Transmittal to make policy recommendations to the CPUC. This is even more egregious since the CPUC has based its recommendation solely on the unsworn and unsubstantiated statements of clearly biased participants in an ongoing CPUC proceeding. For this reason, the Draft Transmittal's statements on this issue should be deleted.

C. The Draft Transmittal's Unsubstantiated Statements Concerning Cogeneration Should Be Deleted

In Section 3.1.2, the Draft Transmittal concludes its discussion of cogeneration with the following recommendations:

> ♦ By the end of 2006, the CPUC should require IOUs to buy, through standard offer contracts, all electricity from CHP plants in their service territories as delivered at the utility's avoided cost, as determined by the CPUC in R.04-04-025....
>
> ♦ Relative to system planning, the Assessment of California CHP Market and Policy Options for Increased Penetration determined a realistic goal of 5,400 MW of CHP by 2020, which is attainable if policies recommended here are implemented.

These policy recommendations prejudge the outcome of an ongoing CPUC proceeding in which the CEC is not a participant. Accordingly, this matter (sometimes described as a cogeneration portfolio standard) is the subject of hundreds of pages of sworn testimony recently submitted in R.04-04-025.

Whether it is appropriate to adopt policies consistent with the CEC's recommendations is a matter squarely within the CPUC's jurisdiction pursuant to PURPA, and the CPUC has undertaken evidentiary hearings to consider the merits of this type of proposal. The notion of a mandatory set aside for cogeneration implicates a number of pricing, equity and environmental issues which are only scantly addressed in the Draft Transmittal or in the CEC's prior analysis of cogeneration, and by such omission, ignores the detrimental cost and environmental consequences of this policy on bundled-service customers. One has to reflect on the billions of dollars Californians have already paid to subsidize cogeneration under its previous must-take, standard contract model. For this reason, the CPUC should only adopt policies that are consistent with State and Federal law, which result in value for ratepayers and which guarantee the claimed benefits of cogeneration for the State of California, particularly with respect to claims of fuel efficiency and reduction of natural gas consumption.

Because the Draft Transmittal's recommendations on this matter are contrary to measured analysis, not based in fact, and appear to be premised on flawed assumptions, they should be deleted.

D. The Draft Transmittal's Attack on the CPUC's Decision Approving the IOUs' Least-Cost/Best Fit Methodology Should Be Deleted

In Section 3.2 of the Draft Transmittal, the CEC states, "A recent review by the Energy Commission of evaluation criteria indicated significant shortcomings in the market value and portfolio fit criteria that are currently being used by utilities."[5] The RPS legislation, as implemented by the CPUC is sufficient to sort bids on the basis required by statute. For this reason, the Draft Transmittal should delete any reference to this issue.

E. Transmission Project Recommendations

SCE agrees with the Draft Transmittal's assessment of transmission in Section 9.3. It is imperative that the CPUC do whatever it can to move transmission projects forward.

SCE notes, however, that the approval, construction and availability of transmission is integrally related to the resource potential for renewable development, and the Draft Transmittal fails to make recommendations that would even remotely support assertions concerning the State's ability to tap into the potential often claimed by the CEC.

For example, the CEC's Renewable Resources Development Report asserts, with little if any substantiation, that there is 63,000 MW of potential concentrating solar power available in Imperial, Kern, Los Angeles, Riverside and San Bernardino counties. Yet the Draft Transmittal does not discuss the facilities and facility upgrades that would be required to develop any of this potential. This disconnect between the CEC's recommendations on accelerated renewable development and the need and recommendations for transmission facilities to accomplish renewable penetration at levels greater than 20% is at best a troubling lapse, and certainly requires further consideration.

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[5] Draft Transmittal at 16.